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Patents and R&D expenditure effects on equity returns in pharmaceutical industry

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ABSTRACT

As costs of pharmaceutical R&D soar and productivity falls, the role of research pipelines in firm valuations is changing. To date, surprisingly little work has been published on the effects of R&D pipeline performance on equity returns, while controlling for coincident factors, such as legacy patents and presence of blockbuster drugs in production. Using 1996–2013 data for nine largest pharmaceutical companies in the world, this article assesses the role of the above factors on returns to pharmaceutical companies equity. We show significant positive link between changes in the number of blockbusters on patent six months prior and returns in excess of pharmaceutical equity index. The number of patents granted by United States Patent and Trademark Office in a quarter is also a significant factor. On the other hand, we find that increases in R&D expenditure in large-cap pharmaceutical companies are viewed negatively by investors in the short term.

KEYWORDS:

Blockbusters patents pharmaceutical industry equity returns R&D spending factor analysis

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Notes

[1] See Herper (2011b)